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MARKETING MARGINS FOR FRUITS AND VEGETABLES

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MARKETING MARGINS FOR FRUITS AND VEGETABLES 1/

Marketing margins for fresh fruits and vegetables decreased from 1958 to 1959. Prices farmers received for these products also averaged lower last year than in 1958, so retail prices were down about 5 percent. These decreases followed sharp increases in 1958. Marketing margins for processed fruits and vegetables also decreased in 1959, but increases in prices received by farmers boosted retail prices. Marketing margins for both fresh and processed fruits and vegetables trended upward during the 1950's.

Marketing margins for fruits and vegetables, like those for most other food products, have risen since World War II, but the rate of increase for these products was less than the average for all farm food products in the "market basket." 2/ In 1959, marketing margins for all fruits and vegetables averaged 32 percent higher than in 1947-49; retail prices of these products were up 23 percent from 1947-49 and prices farmers received for them were up 11 percent (table 13). 3/ Much of the increase in marketing margins during this period occurred in 1951, 1952, and 1958. Farmers received 29 cents of the dollar consumers spent for fruits and vegetables in 1959, compared with 33 cents in 1947-49.

Fresh Fruits and Vegetables

The retail cost, farm value, and marketing margin for the fresh fruits and vegetables in the market basket dropped slightly in 1959 from the peak levels reached in 1958. Unfavorable weather late in 1957 and early in 1958 curtailed the supply of some fresh products, and sharp increases in prices and marketing margins followed. In 1959, prices averaged lower as a result of larger supplies of most products and the decline in prices was accompanied by decreases in marketing margins. Much of the decrease in the farm value and retail cost of the fresh fruits and vegetables group was caused by decreases in prices for oranges from the high levels reached in 1958 when the supply was reduced by unfavorable weather. The marketing margin for oranges also declined slightly.

1/ Prepared by Elmer J. Moore and Forrest E. Scott, Agricultural Economists, Mktg. Econ. Res. Div., Agr. Mktg. Serv.

2/ The "market basket" contains the average quantities of farm-produced food products bought by urban wage-earner and clerical-worker families in 1952.

3/ The marketing margin or farm-retail spread is the difference between the retail price and farm value -- the payment the farmer receives for the equivalent farm product. It is an estimate of charges made by marketing agencies for assembling, processing, transporting, and distributing the product. For fruits and vegetables the farm value always increases or decreases by the same proportion as the price received by farmers.

Table 13.-Fruits and vegetables: Retail cost, farm value, marketing margin, and farmer's share of retail cost, 1947-49 average, annual 1950-59

Year	All fruits and vegetables			
	Retail cost	Farm value	Margin	Farmer's share
	Dollars	Dollars	Dollars	Percent
1947-49 average	187.68	60.93	123.75	33
1950	179.96	55.83	124.13	31
1951	193.76	59.06	134.70	30
1952	215.30	70.45	144.85	33
1953	210.56	62.39	148.17	30
1954	209.59	61.55	148.04	29
1955	210.07	61.69	148.38	29
1956	219.80	66.72	153.08	30
1957	218.72	62.23	156.49	28
1958	233.60	66.59	167.01	29
1959 1/	230.62	67.74	162.88	29
	Fresh fruits and vegetables			
1947-49 average	103.91	42.91	61.00	41
1950	104.87	40.81	64.06	39
1951	109.23	42.85	66.38	39
1952	129.34	53.32	76.02	41
1953	121.48	44.40	77.08	37
1954	120.59	43.82	76.77	36
1955	121.24	44.26	76.98	37
1956	129.34	48.10	81.24	37
1957	130.37	44.76	85.61	34
1958	139.57	49.30	90.27	35
1959 1/	133.31	45.53	87.78	34
	Processed fruits and vegetables			
1953	89.09	17.99	71.10	20
1954	89.00	17.73	71.27	20
1955	88.84	17.43	71.41	20
1956	90.47	18.62	71.85	21
1957	88.35	17.48	70.87	20
1958	94.02	17.29	76.73	18
1959 1/	97.31	22.21	75.10	23

1/ Preliminary.

The moderate 1959 decrease in the annual average marketing margin for the fresh fruits and vegetables group was the first decrease since 1954. The 1959 average, however, was still 44 percent above the 1947-49 average, and the farm value was up about 6 percent.

Although marketing margins for fresh fruits and vegetables decreased in 1959, the farm value declined more, causing a reduction in the farmer's share of the consumer's dollar. Farmers received 34 percent of the dollar consumers spent for these products in 1959, compared with 35 cents in 1958 and 41 cents in 1947-49.

Processed Fruits and Vegetables

Marketing margins for processed fruits and vegetables in the market basket decreased 2 percent from 1958 to 1959, but the effect on the retail prices was more than offset by an increase in farm values (table 13). Farm values of frozen concentrated and canned orange juice were up sharply from 1958 levels. A small decline in the retail price of frozen concentrated orange juice in 1959 together with the rise in the farm value caused a decrease of about one-fourth in the margin. Retail prices of the canned product rose less than farm values, and marketing margins decreased in 1959. Decreases in the marketing margins in 1959 followed sharp increases in 1958.

Marketing margins for processed fruits and vegetables have not risen as much in recent years as those for the fresh products. The marketing margin for the processed fruits and vegetables in the market basket was 6 percent higher in 1959 than in 1953, the first year for which data are published. During the same period, marketing margins for fresh products rose 14 percent.

Farmers received 23 cents of the dollar consumers spent for processed fruits and vegetables in 1959, compared with 18 cents in 1958 and 20 cents in 1953.

Factors Affecting Margins for Fruits and Vegetables

Transportation charges are a substantial part of the marketing margin for fruits and vegetables. Transportation charges increased between 1947 and 1958, partly because rates advanced and partly because of the increasing proportion of fresh vegetables produced in areas located far from consuming markets. The index of railroad freight rates for fresh fruits and vegetables was 27 percent higher in 1958 than in 1947-49. Charges for refrigeration services also increased.

No general increases have been made in rail freight rates since February 1958 and selective rate reductions since then have resulted in a slight decrease in the average level of railroad freight rates for fresh fruits and vegetables. 4/ Most reductions resulted from new "incentive" rates in the form of carload rates or "volume" rates given to shippers who load their railroad cars above a heavier specified minimum weight. For example, the rate per 100 pounds of carrots shipped from Salinas, California, to New York was raised on February 15, 1958, to $2.35 with 30,000 pounds as the specified minimum weight. On April 14, 1958, the railroads put into effect an "incentive rate" of $2.19 per 100 pounds for carlots of 40,000 pounds minimum weight.

4/ The Marketing and Transportation Situation, Oct. 1959, p. 12.

The proportion of fresh fruits and vegetables shipped by truck has continued to increase. Long distance shipments by truck are becoming more common. Truck unloads of fresh fruits and vegetables accounted for 62 percent of the total rail and truck unloads at 13 major cities in 1957 compared with 53 percent in 1951. 5/ Since many of the truck shipments are made by exempt carriers, specific rate information is not generally available, but it is known that truck rates too have increased considerably since 1947-49.

Labor costs are a major component of the marketing bill for fruits and vegetables. Average hourly earnings of employees in the canning and preserving industry increased from $1.04 in 1947 to $1.67 in 1958, and to $1.73 in 1959. Hourly earnings of employees of firms specializing in the marketing of fresh fruits and vegetables increased, but statistical data are not available. Improvements in productivity, however, kept labor costs from rising as much as hourly earnings.

Costs of most goods and services purchased by marketing firms have risen during the last 10 years. Rents, taxes, and many other costs also increased during this period.

Profits of major canning companies, as a percentage of stockholder's equity, in recent years have generally been lower than profits for most other groups of food processing firms. In 1958, profits of 5 leading canning companies averaged 8.4 percent (after taxes) compared with an average of 10.2 percent for major companies in all lines of food processing. Profits (after taxes) of the canning companies were lower in 1958 than in 1947-49, both as a percentage of sales and as a percentage of stockholder's equity. Some of these firms operated freezing as well as canning plants. Major chainstore companies reported profits (after taxes) of 13.8 percent of stockholder's equity in 1958 compared with 16.5 percent in 1947-49.

Changes in marketing practices and channels in recent years probably have held down certain marketing costs. The shift from wood containers to the cheaper fiberboard containers in shipping lettuce and several other fresh products is an example of a change that reduced costs. Fiberboard containers cost less to pack, handle, and load, and they weigh less and make a more compact load in a railroad car or truck, resulting in economies in freight and refreigeration costs. The extension of self-service in retailing produce is another example of a cost-reducing change. Prepackaging of fresh fruits and vegetables and an increase in the proportion sold in processed form greatly facilitated self-service merchandising. Direct buying probably has resulted in savings in procurement and handling costs. The number of retail firms buying fresh fruits and vegetables directly from shipping-point dealers or from growers and buying processed products directly from processors has increased in recent years. Cooperative organizations of independent retailers and voluntary chains sponsored by wholesale firms have made available to independent retailers the advantages of direct buying possessed by the larger chainstore companies.

5/ See "Rail and Truck Shares in the Hauling of Perishables: Some Recent Developments," by Clem C. Linnenberg, Jr., The Marketing and Transportation Situation, July 1958.

Earlier articles on marketing margins for fruits and vegetables reprinted from The Marketing and Transportation Situation:

"Marketing Margins for Fruits and Vegetables," AMS-298, Jan. 1959.
"Farm-Retail Spreads for Fruits and Vegetables," AMS-225, Jan. 1958.
"Marketing Margins and Costs for Fruits and Vegetables," AMS-171, Feb. 1957.
"Marketing Margins for Fruits and Vegetables," AMS-110, Mar. 1956.